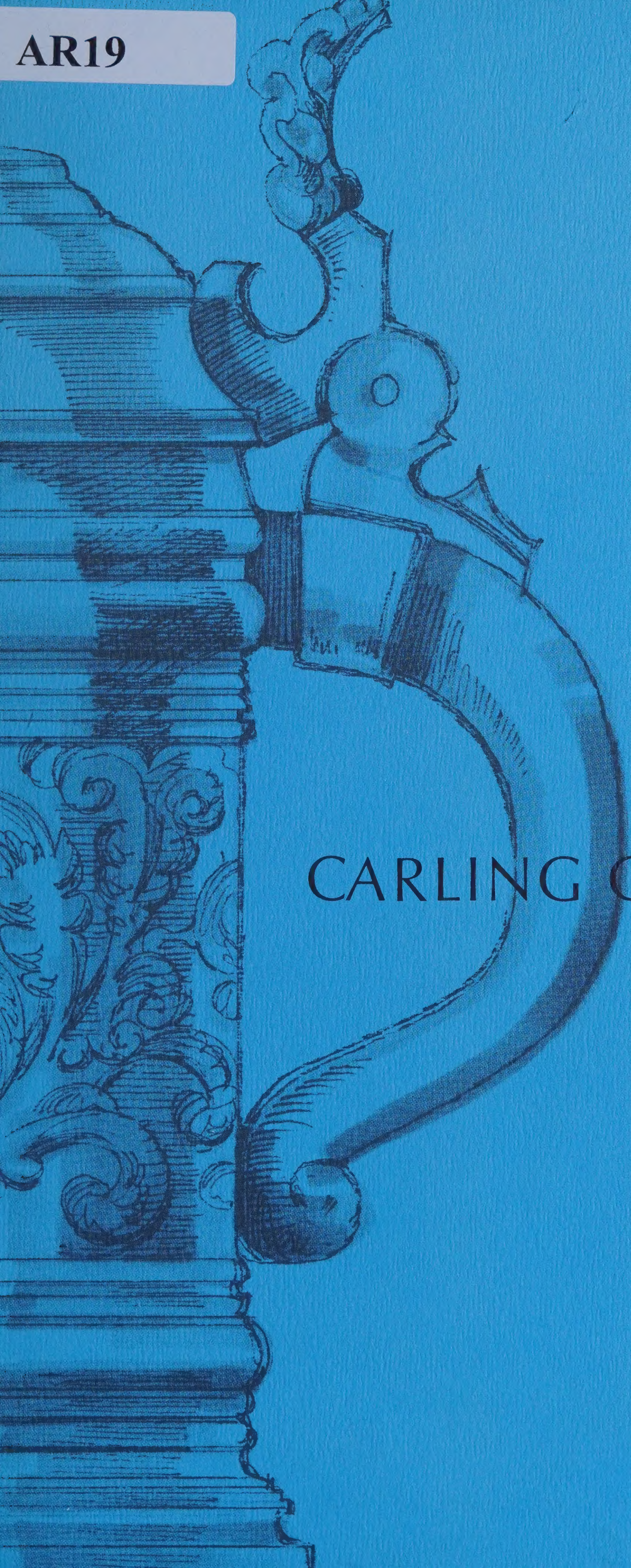

CARLING O'KEEFE LIMITED

ANNUAL REPORT

1977

CARLING O'KEEFE LIMITED

Executive Offices: 79 ST. CLAIR AVENUE EAST, TORONTO, CANADA M4T 1M6

Principal operating subsidiary companies:

CANADA
- CARLING O'KEEFE BREWERIES OF CANADA LIMITED
- O'KEEFE BREWING COMPANY LIMITED
- JORDAN VALLEY WINES LIMITED (91.9% owned)
- STAR OIL & GAS LTD.

UNITED STATES
- CARLING NATIONAL BREWERIES, INC.
- CENTURY IMPORTERS INC.

REPUBLIC OF IRELAND
- BEAMISH & CRAWFORD LIMITED

Auditors: PRICE WATERHOUSE & CO.

Bankers:
BANK OF MONTREAL
THE ROYAL BANK OF CANADA
CHEMICAL BANK–NEW YORK

Registrars:

IN CANADA
- MONTREAL TRUST COMPANY

IN THE UNITED STATES
- MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Transfer Agents:

IN CANADA
- NATIONAL TRUST COMPANY, LIMITED
  Ontario, Quebec, Manitoba, Alberta and British Columbia
- CANADA PERMANENT TRUST COMPANY
  New Brunswick and Nova Scotia
- THE CANADA TRUST COMPANY
  Saskatchewan

IN THE UNITED STATES
- THE CHASE MANHATTAN BANK

VERSION FRANÇAISE

Si vous désirez une version française de ce rapport, veuillez en faire la demande par écrit à:

Vice-président juridique et secrétaire
Carling O'Keefe Limitée
79 St. Clair Avenue East, Toronto, Canada M4T 1M6

CARLING O'KEEFE LIMITED
ANNUAL REPORT 1977

HIGHLIGHTS

	1977	1976
BEER		
Sales barrels	8,899,000	8,190,000
Sales value	$545,264,000	$477,223,000
WINE		
Sales gallons	4,806,000	4,891,000
Sales value	$ 29,323,000	$ 30,019,000
OIL & GAS		
Sales barrels & equivalent	1,211,000	1,094,000
Sales value	$ 6,133,000	$ 4,841,000
CONSOLIDATED		
Sales value	$580,720,000	$512,083,000
Net earnings (loss)	$ 5,402,000	$ (2,517,000)
Net earnings (loss) per common share	15.1¢	(21.4)¢

CONTENTS

FORM 10-K

Carling O'Keefe Limited common shares are traded on the New York Stock Exchange and the Company therefore files an annual report on Form 10-K with the Securities and Exchange Commission in Washington, D.C. Shareholders may obtain a copy of this report by writing to the Vice President Legal and Secretary of the Company.

Report to the Shareholders

Consolidated Results

The Company's performance for the 1977 fiscal year was gratifying as there has been an improvement in the operating results. This improvement has been achieved under adverse economic conditions, particularly those of high inflation and high unemployment which caused a lessening in the growth of consumer demand for brewery products in Canada, the United States and the Republic of Ireland.

Consolidated net earnings for the year ended March 31, 1977 were $5,402,000 (15.1¢ per common share after preference dividends) compared to a loss for 1976 of $2,517,000 (21.4¢ per common share after preference dividends).

The 1977 net earnings were after an income tax reduction of $670,000 (3.1¢ per common share) arising from utilization of a tax loss carry-forward in Carling National Breweries, Inc. The 1976 loss was after costs of reorganization of the United States operations of $3,363,000 (15.5¢ per common share).

Consolidated sales revenue for the year ended March 31, 1977 was $580,720,000 compared to $512,083,000 for the year ended March 31, 1976, an increase of 13.4%. This increase resulted from increased sales volume in the United States brewing operations, due to the inclusion for a full year of the sales of the brands acquired from The National Brewing Co. in October 1975, and price increases received in all operating companies.

The detailed review of operations on the following pages will show that the improved results were due to a major turnaround in the United States brewing operations.

CONSOLIDATED RESULTS			
FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales	$580,720,000	$512,083,000	13.4%
*Net earnings	$ 4,732,000	$ 846,000	—
Net earnings (loss)	$ 5,402,000	$ (2,517,000)	—
Per common share	15.1¢	(21.4)¢	—

*Before tax reduction and reorganization costs

Much of the future success of the Company depends upon the performance of the United States brewing subsidiary and it is very encouraging to see the results for the 1977 fiscal year. The increased sales volume together with production, marketing and administrative efficiencies resulting from the combination of the brewing operations of the former National Brewing Co. with those of Carling Brewing Company, Incorporated, have resulted in a modest operating profit for the first time since 1971. It is recognized that sales volume was positively affected by a three month work stoppage at a competing national brewer, but it should be remembered that competition was intense due to the relatively small growth, estimated at 2.5%, in the total industry volume.

The brand representation in the United States has been realigned so that by the end of the year an increasing percentage of the Company's sales was in the more profitable higher priced segments. Special emphasis has been placed on the premium priced brands, Tuborg Gold and Colt 45, in keeping with the consumer movement to this segment of the market. As a result of the growth in demand for European imports, imported Carlsberg from Denmark is also being actively promoted. These brands, together with the other regular priced and speciality products, offer the American consumer a wide choice of products.

The brewing industry in Canada suffered from poor performance during the year. For the first time in many years the total industry showed a fractional decline in volume from the previous year. The Company's sales volume in Canada declined by 3.7% from last year as a result of the poor industry performance and a marginal decline in market share. Nevertheless, the performance of O'Keefe Ale in the important Quebec ale market, and the market share improvement in Alberta and Newfoundland were encouraging. There is still however, a sizeable task facing the Company in the key market of Ontario where share of market continues to decline.

The decline in sales volume together with delays in receipt of needed price increases and a planned

heavy increase in marketing expenditures resulted in lower earnings than last year.

A high level of involvement in sports marketing vehicles has been maintained. During the year investments were made in the Toronto Argonaut Football Club of the Canadian Football League and Le Club de Hockey Les Nordiques Inc. of the World Hockey Association. These investments were made to protect the Company's position in the highly competitive Canadian beer market where sports properties are an important part of the marketing effort. The Company was also involved in sponsorship of the highly entertaining Canada Cup World Hockey Tournament in September 1976, which drew the highest television audience ever in Canada.

Sales and earnings of Beamish & Crawford Limited, your Company's subsidiary in Ireland, were depressed during the year primarily as the result of the poor economic conditions existing in that country.

Sales of Canadian produced wines have suffered for some years from a declining share of the total Canadian wine market. This has resulted from intense competition from lower priced foreign imported wines, particularly in the growing table wine segment which now represents more than half of the total wine industry in Canada. Provincial Governments are only now becoming aware of the threat to the Canadian industry and are beginning to take corrective action. Sales of Jordan Valley Wines Limited declined 1.7% from last year due to the lack of growth for Canadian produced wines. This decline in volume together with price increases which were not adequate to offset cost increases on a timely basis, resulted in Jordan suffering a loss on the year's operations.

Star Oil & Gas Ltd. the Company's subsidiary in the important oil and gas industry continued its successful performance. Sales and earnings increased and despite higher sales volume for the year, proven natural gas reserves at March 31, 1977 exceeded those at the previous year end. The Board of Directors believe that participation in this industry represents an important diversification for your Company, and will continue to support it actively in the future.

Board of Directors

During the year Mr. S. Roderick McInnes was appointed a Director of your Company and Chairman, President and Chief Executive Officer of Carling O'Keefe Breweries of Canada Limited. Mr. McInnes, whose business career includes brewery experience, replaced Mr. E. Norris Davis who retired.

Effective December 31, 1976 Mr. Wilmat Tennyson resigned as a Director and as President and Chief Executive Officer of Carling O'Keefe Limited in order to form his own company. I have assumed the duties of President in addition to my responsibilities as Chairman of the Board of Directors.

The Board of Directors express their gratitude to Mr. Davis and Mr. Tennyson for their many contributions and wish them well in their respective future pursuits.

Outlook

Although considerable progress has been made during the year, particularly in the United States brewing operations, much work remains to be done to restore the Company to an acceptable level of earnings. The initial indications are that the United States operations are on the right track. However, considerable additional effort will be required to regain growth in the Company's share of the Canadian beer industry and to restore the Canadian wine operations to a profitable level. The Board of Directors believe that steps have been taken to meet these objectives, but time will be required before the success of the efforts can be determined.

Appreciation

I would like, on behalf of the Board of Directors, to thank our many employees in Canada, the United States and Ireland for their efforts and their loyalty, and our 34,400 shareholders, of whom 29,500 are residents of Canada, for their continued confidence and support.

J. C. LOCKWOOD
Chairman of the Board
and President

May 17, 1977

Review of Operations

Brewing Operations—Canada

Net earnings from the Company's Canadian brewing operations for the year ended March 31, 1977 were $2,007,000 compared to earnings of $6,166,000 achieved in the previous fiscal year.

BREWING OPERATIONS—CANADA			
FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales (barrels)	4,152,000	4,313,000	(3.7)%
Sales	$301,313,000	$287,237,000	4.9%
Net earnings	$ 2,007,000	$ 6,166,000	(67.5)%
Earnings per barrel	$.48	$1.43	(66.4)%

A major factor contributing to lower earnings for the year was a sales volume decrease of 161,000 barrels due to the combined effect of marginal decreases in both the total industry sales volume and in the Company's share of market. This declining industry sales trend is of great concern to the brewing industry and concentrated efforts are being applied to this problem.

Despite the volume decrease, total sales revenues increased over the previous year as the result of higher selling prices granted by Provincial Government authorities and permitted by the Federal Anti-Inflation Board. Because of the lengthy approval procedures required, these increases were not received in time to cover all of the increases in costs.

Raw materials and manufacturing costs increased over the previous year with increases in wages and other manufacturing expenses offsetting moderate decreases in unit costs for the major agricultural ingredients used in the production of beer.

Marketing and distribution expenses increased over the previous year reflecting higher costs for goods and services and an increased level of marketing expenditures, primarily in the major markets of Ontario and Quebec, as efforts were made to improve the Company's share position in these extremely competitive markets. Administrative and general expenses were reduced despite inflationary pressures on many cost items.

As already noted the Company made two major sports investments in Ontario and Quebec. A 40% interest in the Toronto Argonaut Football Club in the Canadian Football League was purchased for $2,000,000 and 91.5% of Le Club de Hockey Les Nordiques Inc. of the World Hockey Association was acquired for $1,639,000.

Capital expenditures of $9,183,000 were made during the year with the major portion required for expansion of production facilities at the Montreal, Quebec brewery to meet increased sales demand.

Brewing Operations—United States

The United States brewing operations for the year ended March 31, 1977 resulted in net earnings before adjustment for foreign exchange, of $868,000 compared to a loss of $13,323,000 in 1976. The exchange adjustment reflects the fluctuations in the value of the United States dollar during the period.

BREWING OPERATIONS—UNITED STATES			
FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales (barrels)	4,565,000	3,677,000	24.2%
Sales	$225,015,000	$171,156,000	31.5%
*Net earnings (loss) before exchange	$ 868,000	$ (13,323,000)	–
Foreign exchange gain (loss)	$ (299,000)	$ 472,000	–
Net earnings (loss)	$ 569,000	$ (12,851,000)	–
Earnings (loss) per barrel	$.12	$(3.50)	–

*After tax reduction and reorganization costs.

The improvement in earnings resulted from the increased sales volume and improved efficiencies arising from the consolidation for a full year of the brewing operations of The National Brewing Co. which were acquired in October 1975.

It was an unusual year for the United States brewing industry. The industry reported only 2.5% growth in volume for the year with all of the increment coming from the packaged segment. There was also a three month work stoppage by a major national brewer and a remarkable shift in consumer purchasing to higher priced products.

Colt 45 and Tuborg benefited from the consumer shift to the higher priced products. Tuborg which had only been distributed in selected markets, has been repackaged and renamed Tuborg Gold, and with the support of a heavy advertising programme, is now the featured brand of a national campaign. Initial response to Tuborg Gold has been sufficiently favourable to provide encouragement but more time is required to draw a conclusion as to the degree of the brand's success.

The shift in consumer demand to higher priced products also had a very positive effect on sales of imported brands of beer. Carlsberg, which is imported from Denmark, enjoyed an increase in volume of 10.7% over last year.

The above performance is in keeping with the Company's intention to place its marketing emphasis in the premium price and super premium price segments of the market while continuing to obtain volume support from popular priced brands such as Black Label, Stag, Heidelberg and National Bohemian.

Determination of the future of the Natick, Massachusetts plant, which was closed in May 1976, has been deferred pending a further analysis of the Company's capacity requirements.

Carling National Breweries, Inc. with its broad range of products and aggressive marketing stance is now in a position to meet the taste and price preference of all segments of the United States beer market.

Century Importers Inc. the Company's subsidiary which imports and sells Canadian produced beers in the United States is now distributing its brands in 19 states. Canadian beers enjoy exceptional acceptance in the imported beer segment and constitute the fastest growing brands in that market, currently holding second place behind Holland. Sales volume by Century for the year ended March 31, 1977 showed an increase of 18.5% over the previous year.

Brewing Operations—Republic of Ireland

Sales of Beamish & Crawford Limited for the year ended March 31, 1977 declined in line with the general downturn in the industry volume. The poor performance by the Irish industry is attributed to the continuing adverse economic conditions and the relatively high retail selling price of brewery products, particularly ale and lager. During the year, Ireland suffered from a high rate of inflation, which was running at 19%, and high unemployment.

In January and March 1976 there were major increases in the excise tax on beer and in the retail selling price. These increases caused the

BREWING OPERATIONS—IRELAND

FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales (barrels)	182,000	200,000	(9.0)%
Sales	$18,936,000	$18,830,000	.6%
Net earnings (loss) before exchange	$ (203,000)	$ 116,000	—
Foreign exchange loss	$ (149,000)	$ (1,065,000)	(86.0)%
Net loss	$ (352,000)	$ (949,000)	(62.9)%
Loss per barrel	$(1.93)	$(4.75)	(59.4)%

Irish consumer to reduce consumption and to shift to the lower priced stout products. This had a particularly adverse effect on the Company's sales which are primarily in ale and lager. To take advantage of this trend Beamish & Crawford Limited, introduced Beamish XXX Stout in April 1976. The introduction of this product was controlled, and distribution was expanded only as sales results or potential warranted. The brand's performance to date is satisfactory, but the total volume is still relatively small and the market is intensely competitive.

The continuing high inflation rate resulted in sharp increases in all costs related to the business. These increased costs together with the volume decline resulted in a reduction in earnings. The foreign exchange loss reflected the 25% decline in the value of the pound sterling since April 1, 1975.

The prospect for improved earnings for Beamish & Crawford Limited will be largely dependent on the receipt of adequate price relief to offset steadily increasing costs and a return to a growth situation for the Irish beer industry.

Wine Operations

During the year sales of Canadian produced wines were adversely affected by competition from imported foreign wines which increased their share of the total Canadian wine market by 5%. Jordan Valley Wines Limited however, maintained its 32% share of the Canadian produced wine market and continued to be the largest wine company in Canada.

The decline in sales revenue of 2.3% resulted from lower sales volume and a sales trend to lower alcohol products. A lack of adequate price increases to offset increased manufacturing costs and higher administrative and marketing costs resulted in a loss for the year. The Company has taken the necessary action to reduce the administrative and marketing costs by reorganizing the management of the Company.

During the year the Company began construction of a new winery on the British Columbia mainland. This new facility will replace the old outdated plant in Victoria, British Columbia and will result in lower costs through production efficiencies and reduced transportation costs. It is anticipated that the new winery will be ready for the current year's vintage in the fall of 1977, and will be fully operational early in 1978.

WINE OPERATIONS

FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales (gallons)	4,806,000	4,891,000	(1.7)%
Sales	$29,323,000	$30,019,000	(2.3)%
*Net earnings (loss)	$ (331,000)	$ 1,199,000	—
*Earnings (loss) per gallon	(6.9)¢	24.5¢	—

*Carling O'Keefe Limited share

Oil and Gas Operations

Star Oil & Gas Ltd. reported satisfactory results for the period under review, with good growth in sales revenue.

Gross proven reserves at March 31, 1977 totalled 6,790,000 barrels of crude oil and natural gas liquids and 172 billion cubic feet of natural gas compared to March 31, 1976 reserves of 7,297,000 barrels of crude oil and natural gas liquids and 163 billion cubic feet of natural gas.

During the year ended March 31, 1977, Star participated in the drilling of 12 wells resulting in 2 oil wells, 5 gas wells and 5 abandoned wells. In

addition, 5 wells were drilled on Star lands, at no cost to Star, resulting in 5 abandoned wells.

Star acquired interests in 37,061 acres of prospective oil and gas lands during the year and at March 31, 1977 held interests in 1,279,673 undeveloped acres located in Alberta, Saskatchewan, British Columbia, the Arctic Islands and East Coast offshore.

As a result of improved prices for crude oil and natural gas in Alberta and British Columbia, exploration and development drilling is at an all time high. This activity has not as yet added significantly to the long term hydrocarbon reserves but has added an increase in natural gas productive capacity which has resulted in a short term oversupply of natural gas. Canada still faces a long term shortage of hydrocarbon reserves. In order to attract capital for the increasing investment required for the exploration and development of new reserves of crude oil and natural gas, it is essential that the investor be able to make a reasonable rate of return on capital employed.

On July 1, 1977, the Company will move its office to Calgary, Alberta where most oil companies are located and will increase its activity in the search for and development of oil and natural gas reserves and production.

OIL AND GAS OPERATIONS

FINANCIAL YEARS ENDED	MARCH 31 1977	MARCH 31 1976	INCREASE (DECREASE)
Sales (barrels and equivalent)	1,211,000	1,094,000	10.7%
Sales	$6,133,000	$4,841,000	26.7%
Net earnings	$2,392,000	$2,324,000	2.9%
Earnings per barrel	$1.97	$2.12	(7.1)%

International Division

Carling Black Label continued to grow in popularity in the overseas markets where it is sold under franchise agreements. Sales volume for the year increased 12.2% over the previous year. Royalty income of $1,404,000 for the year ended March 31, 1977 represented an increase of only 1.7% as the result of the increase in value of the Canadian dollar compared to the local currencies in which the royalties were paid.

Financial Position

At March 31, 1977 working capital was $19,646,000, a decrease of $7,450,000 from the working capital position at March 31, 1976. The ratio of current assets to current liabilities at March 31, 1977 was 1.21 to 1 compared to 1.36 to 1 at March 31, 1976. This change in the working capital ratio was due to increased short term indebtedness required to finance higher accounts receivable, inventories and a portion of the plant expansion programme. Details of the changes are provided in the consolidated statement of changes in financial position.

Capital expenditures on property, plant and equipment for the year were $19,402,000, of which $9,183,000 related to Canadian brewing operations, the major portion being spent on expanding production facilities in Montreal, Quebec. Expenditures for the development of oil and natural gas reserves were $5,291,000 and capital additions in the wine operations were $3,055,000, the construction of a new winery in Surrey, British Columbia being the major item.

Capital expenditures planned for 1978 total $27,000,000. Major items will include continuation of the expansion of production facilities in Montreal, Quebec, completion of the new winery in Surrey, British Columbia and increased activity in the exploration for and development of oil and natural gas reserves.

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES
(Incorporated under the laws of Ontario)

Consolidated Statement of Earnings

(in thousands of dollars)

	Year Ended March 31 1977	Year Ended March 31 1976
Income		
Sales	$580,720	$512,083
Excise and sales taxes	162,661	154,789
	418,059	357,294
Investment and other income	3,690	3,678
	421,749	360,972
Costs		
Raw materials and manufacturing	280,040	238,220
Marketing and distribution	105,080	93,647
Administrative and general	23,592	19,496
Interest on long term debt	1,401	1,584
Other interest	2,850	2,086
Foreign exchange	480	651
Minority interest	(29)	167
	413,414	355,851
Earnings before income taxes	8,335	5,121
Income taxes (Note 4)		
Current	1,439	3,219
Deferred	2,164	1,056
	3,603	4,275
Earnings before the undernoted items	4,732	846
Cost of reorganization of United States operations (Note 3)	–	(3,363)
Tax reduction arising from utilization of loss carry-forward in United States subsidiary (Note 4)	670	–
EARNINGS (LOSS) FOR THE YEAR	$ 5,402	$ (2,517)
Earnings (loss) per common share for the year		
Before reorganization costs and tax reduction	12.0¢	(5.9)¢
After reorganization costs and tax reduction	15.1¢	(21.4)¢

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Financial Position

(in thousands of dollars)

	Year Ended March 31 1977	1976
Working capital was increased by		
Earnings for the year before reorganization costs and tax reduction	$ 4,732	$ 846
Depreciation and amortization	10,825	10,765
Other items not requiring working capital	1,687	186
Working capital from operations	17,244	11,797
Tax reduction arising from utilization of loss carry-forward	670	–
Proceeds on disposal of property, plant and equipment	1,369	2,175
Proceeds on disposal of investments and other assets	1,838	2,848
Current portion of mortgage receivable	3,100	–
	24,221	16,820
Working capital was decreased by		
Purchase of assets of The National Brewing Co. (Note 2)	483	13,033
Purchase of shares in subsidiary companies (Note 2)	2,004	2,397
Additions to property, plant and equipment	19,402	10,575
Additions to investments and other assets	4,040	–
Cost of reorganization of United States operations	–	3,363
Reduction of long term debt	3,485	3,306
Dividends on preference shares	2,117	2,132
Dividends paid by subsidiary company to minority shareholders	8	102
Purchase of preference shares	132	117
	31,671	35,025
Decrease in working capital	7,450	18,205
Working capital at beginning of year	27,096	45,301
Working capital at end of year	$ 19,646	$ 27,096

Consolidated

ASSETS

	March 31 1977	March 31 1976
	(in thousands of dollars)	
Current assets		
Cash	$ 1,927	$ 2,909
Accounts receivable	37,928	33,682
Recoverable income taxes	1,594	1,988
Inventories		
Beverage products, finished and in process	37,168	33,336
Materials and supplies	17,342	15,799
Containers	11,977	11,870
	66,487	61,005
Prepaid expenses	4,186	3,613
Total current assets	112,122	103,197
Property, plant and equipment, at cost		
Land	7,105	6,875
Buildings	86,901	86,828
Machinery and equipment	143,660	147,525
Motor vehicles	14,375	14,526
Oil and gas properties	23,011	17,935
Leasehold improvements	1,260	1,482
	276,312	275,171
Less accumulated depreciation	131,375	132,668
	144,937	142,503
Investments and other assets		
Sundry properties (Note 14)	12,747	8,274
Mortgages and long term receivables	1,189	4,843
Deferred charges, investments and other (Note 5)	6,556	3,279
	20,492	16,396
Intangible assets		
Cost of shares and assets of subsidiaries in excess of underlying net tangible asset values at acquisition, less amortization of $76,000 (1976—$10,000)	14,969	12,618
Trademarks at cost, less amortization of $70,000 (1976—$20,000)	1,829	1,879
	16,798	14,497
	$294,349	$276,593

APPROVED BY THE BOARD:

J. C. LOCKWOOD, *Director*

A. M. HENDERSON, *Director*

Balance Sheet

LIABILITIES AND SHAREHOLDERS' EQUITY	March 31	
	1977	1976
	(in thousands of dollars)	
Current liabilities		
Bank indebtedness (Note 6)	$ 37,472	$ 30,145
Accounts payable and accrued liabilities	44,141	35,204
Income taxes	905	2,325
Other taxes	9,430	7,896
Dividends payable	528	531
Total current liabilities	92,476	76,101
Long term debt (Note 7)		
Sinking fund debentures payable in either Canadian or United States funds at par, at the option of the holder:		
Series A 4¾% due January 15, 1979	1,186	1,482
Series B 4¼% due January 15, 1981	2,577	3,478
Sinking fund debentures payable in Canadian funds:		
Series C 5% due January 15, 1983	3,008	3,954
Series D 5½% due April 1, 1986	7,026	7,684
Series E 5½% due April 1, 1989	11,126	12,865
	24,923	29,463
Less amount included in current liabilities	1,523	2,263
	23,400	27,200
Other long term obligation (Note 10)	2,354	2,424
Deferred income taxes	19,643	17,479
Minority interest	1,648	1,714
Shareholders' equity		
Capital stock (Note 8)		
Authorized		
870,762 preference shares with a par value of $50 each, issuable in series		
30,001,260 common shares without par value		
Issued		
433,745 $2.20 cumulative redeemable preference shares, Series A	21,687	21,687
437,017 $2.65 cumulative redeemable preference shares, Series B	21,851	22,106
21,762,295 common shares	78,357	78,357
	121,895	122,150
Retained earnings	32,933	29,525
Total shareholders' equity	154,828	151,675
	$294,349	$276,593

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year Ended March 31	
	1977	1976
Balance at beginning of year	$ 29,525	$ 34,040
Earnings (loss) for the year	5,402	(2,517)
Excess of par value over cost of preference shares purchased for cancellation	123	134
	35,050	31,657
Dividends paid		
Preference		
$2.20 per Series A share and $2.65 per Series B share	2,117	2,132
Balance at end of year	$ 32,933	$ 29,525

Analysis of Changes in Consolidated Working Capital

(in thousands of dollars)

	Year Ended March 31	
	1977	1976
Increase (decrease) in current assets		
Cash	$ (982)	$ (942)
Short term investments	—	(2,995)
Accounts receivable	4,246	5,842
Recoverable income taxes	(394)	(126)
Inventories	5,482	611
Prepaid expenses	573	(2,176)
Total	8,925	214
(Increase) decrease in current liabilities		
Bank indebtedness	(7,327)	(13,484)
Notes payable	—	5,000
Accounts payable and accrued liabilities	(8,937)	(11,144)
Income taxes	1,420	(52)
Other taxes	(1,534)	1,257
Dividends payable	3	4
Total	(16,375)	(18,419)
Decrease in working capital	$ 7,450	$ 18,205

CARLING O'KEEFE LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

MARCH 31, 1977 AND 1976

1. Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal operating subsidiaries are listed on Page 1. Purchase accounting has been followed for all acquisitions. For certain subsidiaries acquired prior to April 1, 1974 the excess of the cost of shares over the value of the underlying net tangible assets at the time of acquisition is carried at cost and is not being amortized. In accordance with current accounting practice, intangible assets acquired subsequently are being amortized over periods not exceeding forty years.

FOREIGN EXCHANGE

Foreign currency accounts are translated to Canadian dollars as follows: current accounts at exchange rates in effect at March 31; other balance sheet accounts and depreciation expense at historical rates of exchange; income and other costs at average rates of exchange during the year. The resulting exchange gains or losses are included in the consolidated statement of earnings.

INVENTORIES

Inventories of beverage products, materials and supplies are stated at the lower of average cost and net realizable value. Containers are recorded at amortized cost which is lower than new replacement cost.

PROPERTY, PLANT AND EQUIPMENT

Depreciation is provided generally on the straight line basis at the following rates per annum:

Buildings	2%- 6⅔%
Machinery and equipment	5%-12½%
Motor vehicles	10%-25%

Oil and gas properties are accounted for on the full cost method whereby all costs of exploration and development are capitalized and amortized against income using the unit of production method based on proven oil and gas reserves.

INVESTMENTS AND OTHER ASSETS

Investments and other assets are recorded at cost or amortized cost.

PENSIONS

Current service costs are charged to operations as they accrue. Prior service costs arising from amendments to the plans and actuarial gains or losses are charged to operations as they are funded in accordance with legal requirements over periods ranging from five to thirty years.

MARKETING COSTS

Marketing costs including those related to the introduction of new brands are charged to operations as incurred, except for certain promotional items which are charged to operations as used.

INCOME TAXES

Income taxes are accounted for on the tax allocation basis for all timing differences between accounting and taxable income. These timing differences arise principally between accounting and tax depreciation.

2. Acquisitions

Effective June 1, 1976 Carling O'Keefe Breweries of Canada Limited acquired 91.5% of the shares of Le Club de Hockey Les Nordiques Inc. for $1,639,000 cash. The values established by the transaction were as follows:

Tangible assets	$ 71,000
Cost of shares in excess of the underlying net tangible assets	1,933,000
	2,004,000
Working capital deficiency	365,000
	$1,639,000

Effective October 31, 1975 Carling National Breweries, Inc. acquired for $18,952,000 cash the brewing assets, including working capital of $5,919,000, and trademarks of The National Brewing Co. and assumed a long term obligation for unfunded vested prior service pension benefits. Additional consideration to a maximum of $9,000,000 U.S. may be payable under a formula based on the earnings of Carling National Breweries, Inc. over the seven year period commencing April 1, 1976. In 1977 an amount of $754,000 U.S. became payable under this formula of which $459,000 U.S. ($483,000 Cdn.) has been assigned to the excess cost of assets over the value of the underlying net tangible assets.

In 1976 the Company acquired additional shares (8.1%) of Jordan Valley Wines Limited for $2,397,000 cash, of which $726,000 represented the excess of the cost of the shares over the value of the underlying net tangible assets.

3. Cost of Reorganization of United States Operations

In 1976 the United States operations were reorganized, including the closure of the plant at Natick, Massachusetts, and a provision of $3,363,000 was made for costs relating to these actions. Pending determination of the future of the Natick property, no adjustment has been made to the carrying value of $4,936,000, included in sundry properties at March 31, 1977.

4. Income Taxes

In 1977 Carling National Breweries, Inc. applied prior years' losses against the current year's taxable income with a resultant tax reduction of $670,000. At March 31, 1977 accumulated losses for tax purposes incurred by that company in prior years of approximately $22,100,000 remain available to be applied against future taxable income of which $1,400,000 can be carried forward to 1978, $2,600,000 to 1979, $9,600,000 to 1980 and $8,500,000 to 1983.

5. Investments and Other Assets

Under an agreement dated June 23, 1976 the Company acquired for $2,000,000 cash, a 40% interest in a partnership which owns the Toronto Argonaut Football Club. Under certain circumstances, and subject to certain conditions, the Company may be obliged to acquire the remaining interest in the partnership on similar terms.

6. Bank Indebtedness

Bank indebtedness of Carling National Breweries, Inc. of $4,752,000 (1976—$5,500,000) is secured by its accounts receivable.

7. Long Term Debt

Sinking fund payments required for the years 1979 through 1982 are as follows: 1979—$3,800,000; 1980—$3,200,000; 1981—$3,200,000; 1982—$2,400,000.

8. Capital Stock

The Series A and B preference shares are redeemable at $53.00 and $52.50 per share respectively. During the year ended March 31, 1977, 5,098 Series B shares were purchased for cancellation (1976—5,025).

Rothmans of Pall Mall Canada Limited is the beneficial owner of 50.1% of the Company's common shares.

9. Remuneration of Directors and Senior Officers

Total remuneration of Directors and Senior Officers for the year ended March 31, 1977 was $820,000 (1976—$826,000).

10. Pensions

The Company and its subsidiaries maintain a number of pension plans covering substantially all employees and it is the Company's policy to fund the pensions with independent trustees. Based on actuarial valuations, unfunded prior service costs in excess of the amount reflected in the balance sheet as other long term obligation, are estimated at $16,000,000, of which $6,000,000 relates to vested benefits. These amounts are being funded over periods ranging from five to thirty years as described in Note 1. The liability of $2,354,000 at March 31, 1977 for unfunded vested benefits recorded on the acquisition of the assets of The National Brewing Co. is being amortized over an eighteen year period to 1994. Total pension expense for the year ended March 31, 1977 was $5,841,000 (1976—$4,184,000).

11. Commitments and Contingent Liabilities

Under a long term agreement with United Breweries Limited of Copenhagen, Denmark, the Company has access to the brewing research and technical knowledge of United Breweries, together with the exclusive right to manufacture and sell brewery products under the Carlsberg and Tuborg trademarks in Canada, the United States and the Republic of Ireland. Royalties are payable based on total sales of all brewery products at rates varying with the volumes and selling prices of the products. The agreement is cancellable on twenty years' notice or earlier if certain specified conditions are not fulfilled.

Capital expenditures for 1978 are expected to aggregate $27,000,000.

The Company is committed to acquire in 1979 the minority interest (8.1%) in the shares of Jordan Valley Wines Limited for an amount at least equal to $2,939,000.

12. Anti-Inflation Programme

The Company and its Canadian subsidiaries are subject to, and believe that they have complied with, controls on prices, profits, compensation and dividends instituted by the Government of Canada in the Anti-Inflation Act, effective October 14, 1975.

13. Asset Replacement Cost

Certain specific unaudited information with respect to the estimated March 31, 1977 replacement cost of inventories and productive capacity and the approximate effect which replacement costs would have had on the cost of sales and depreciation expense for the year, is included in the Company's Form 10-K which is filed annually with the Securities and Exchange Commission, Washington, D.C.

14. Subsequent Event

The Company has granted an option to purchase its property located at Yonge and Front Streets, Toronto. This option is exercisable at various dates up to December 21, 1977 at an amount which is in excess of the $7,000,000 book value.

Price Waterhouse & Co.
CHARTERED ACCOUNTANTS

Box 51 Toronto-Dominion Centre
Toronto, Ont. M5K 1G1
(416) 863-1133 Telex 02-2246

May 17, 1977

Auditors' Report

TO THE SHAREHOLDERS OF CARLING O'KEEFE LIMITED:

We have examined the consolidated statements of earnings, retained earnings, analysis of changes in working capital and changes in financial position of Carling O'Keefe Limited for the year ended March 31, 1977 and the consolidated balance sheet as at that date. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to any adjustments that might be required on determination of the future of the Natick property referred to in Note 3 to the financial statements, these consolidated financial statements present fairly the results of operations, changes in working capital and changes in financial position of the Company for the year ended March 31, 1977 and its financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.

Chartered Accountants

FIVE YEAR FINANCIAL SUMMARY

(in thousands of dollars)

	Year Ended				
	March 31		June 30		
	1977	1976	1975	1974	1973
	$	$	$	$	$
Results for the Year					
Sales	580,720	512,083	466,456	419,949	412,603
Excise and sales taxes	162,661	154,789	149,419	145,236	148,589
Sales excluding taxes	418,059	357,294	317,037	274,713	264,014
Operating costs	397,887	340,598	305,119	266,672	251,523
Investment and other income	3,690	3,678	3,575	4,137	5,186
Foreign exchange gain (loss)	(480)	(651)	60	(2,329)	3,673
Interest expense	4,251	3,670	3,503	3,713	3,374
Minority interest	(29)	167	168	137	156
Depreciation and amortization	10,825	10,765	10,281	10,190	9,139
Earnings (loss) before income taxes	8,335	5,121	1,601	(4,191)	8,681
Income taxes	3,603	4,275	2,505	830	2,563
Extraordinary charges (credits) less applicable income taxes	(670)	3,363	—	(1,541)	(3,795)
Net earnings (loss)	5,402	(2,517)	(904)	(3,480)	9,913
Dividends paid—preference	2,117	2,132	2,142	2,153	2,164
—common	—	—	—	—	2,176
Net earnings (loss) per common share	15¢	(21)¢	(14)¢	(26)¢	36¢
Dividends per common share	—	—	—	—	10¢
Year end position					
Cash and short term investments	1,927	2,909	8,821	15,168	31,723
Less bank indebtedness and notes payable	37,472	30,145	14,945	17,659	23,569
	(35,545)	(27,236)	(6,124)	(2,491)	8,154
Other current assets	110,195	100,288	101,613	92,222	87,546
Less other current liabilities	55,004	45,956	47,235	39,456	37,655
Working capital	19,646	27,096	48,254	50,275	58,045
Property, plant and equipment—net	144,937	142,503	132,704	132,626	136,469
Investments and other assets	20,492	16,396	16,733	20,081	18,243
Intangible assets	16,798	14,497	11,902	11,902	11,677
Less: Long term debt	23,400	27,200	30,189	33,823	37,857
Other long term obligations	2,354	2,424	—	—	—
Deferred income taxes	19,643	17,479	16,685	15,276	15,069
Minority interest	1,648	1,714	3,394	3,313	3,254
Shareholders' equity	154,828	151,675	159,325	162,472	168,254
Current ratio	1.2	1.4	1.8	1.9	1.9
Percentage return on shareholders' equity	3.5	(1.7)	(0.6)	(2.1)	5.9
Preference share capital	43,538	43,793	43,974	44,224	44,474
Book value per common share	$5.11	$4.96	$5.30	$5.43	$5.69

Nature and Lines of Business

Carling O'Keefe Limited, through its subsidiaries, manufactures and sells brewery and wine products in Canada and brewery products in the United States and the Republic of Ireland. In addition, the Company owns a producing oil and gas company. All subsidiaries are wholly owned with the exception of Jordan Valley Wines Limited which is 91.9% owned by the Company and Le Club de Hockey Les Nordiques Inc. which is 91.5% owned by the Company.

In Canada, the Company, through its subsidiaries, is one of three major brewing companies who together account for over 96% of all Canadian beer sales. Three smaller regional breweries account for the remainder. The Company and its subsidiaries operate thirteen breweries in Canada. One plant is located in each of the Provinces of Newfoundland, Quebec, Manitoba, Alberta and British Columbia with two plants in the Province of Saskatchewan and six plants in the Province of Ontario. Total annual brewing capacity is approximately 5,800,000 barrels.

Carling National Breweries, Inc. owns and operates six breweries in the United States. These plants are located in Belleville, Illinois; Frankenmuth, Michigan; Phoenix, Arizona; Tacoma, Washington and two breweries in Baltimore, Maryland. Total annual brewing capacity is approximately 6,850,000 barrels. A seventh brewery located in Natick, Massachusetts was closed in May, 1976. It is estimated that Carling National ranks number ten in the United States brewing industry.

The Company also exports Canadian beer for sale through a United States subsidiary, Century Importers Inc.

Beamish & Crawford Limited owns and operates a brewery in Cork, Republic of Ireland. The Irish market is dominated by one major brewer who accounts for more than 90% of the total industry with the remaining market shared by Beamish & Crawford Limited and one other brewery.

Jordan Valley Wines Limited operates wineries at Jordan and St. Catharines, Ontario; Selkirk, Manitoba; Moose Jaw, Saskatchewan; Calgary, Alberta; and Victoria, British Columbia and sells in all Provinces and Territories of Canada. Combined storage capacity of the six wineries is approximately 13,200,000 gallons.

Star Oil & Gas Ltd. is a producing company also engaged in the exploration and development of oil and gas properties in Canada and the United States.

Other income is derived from investments and from royalties under licencing agreements for the production and sale of Carling Black Label.

The approximate percentage of (i) total sales and revenues and (ii) income before income taxes and extraordinary items attributable to each line of business conducted by the Company and subsidiaries for each of the last five fiscal years is shown in the following table.

	March 31				June 30					
	1977 Percentage		1976 Percentage		1975 Percentage		1974 Percentage		1973 Percentage	
Line of Business	Sales	Income	Sales	Income (Restated)	Sales	Income	Sales	Income	Sales	Income
Beer—Canada	51.9	41.3	56.1	193.3	58.4	485.9	57.4	76.8	56.5	119.2
Beer—United States	38.7	3.7	33.4	(189.0)	31.3	(541.0)	32.3	(169.0)	34.9	(98.8)
Beer—Ireland	3.3	(2.1)	3.7	(12.8)	3.7	10.0	4.0	7.8	3.7	12.3
	93.9	42.9	93.2	(8.5)	93.4	(45.1)	93.7	(84.4)	95.1	32.7
Wine	5.0	(6.7)	5.9	40.2	5.9	87.2	5.8	31.5	4.5	13.6
Oil and Gas	1.1	48.2	.9	66.6	.7	105.6	.5	5.5	.4	3.6
Other	—	15.6	—	1.7	—	(47.7)	—	(52.6)	—	50.1
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	(100.0)	100.0	100.0

Management's Discussion and Analysis of Operations

The following explanatory comments should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this report.

A major factor, in the operating results for 1977 and 1976, was the acquisition of the brewing assets and trademarks of The National Brewing Co. on October 31, 1975, and the inclusion of the revenue and costs related to those operations since November 1, 1975.

Income

Sales increased $68,637,000 or 13.4% in 1977. Approximately $47,000,000 of the increase was the result of additional sales volume and $22,000,000 of the increase was a result of higher revenue per barrel. Beer sales, which represented 93.9% of total sales, increased 8.7% by volume. Canadian volume declined 3.7% due to the combined effect of marginal decreases in both the total industry volume and in the Company's share of market. Volume in the United States, however, increased 24.2% primarily due to the inclusion of the National brands for a full year together with the effect of a work stoppage at a major national brewer which lasted approximately three months. Excise and sales taxes increased in line with the total volume increase.

Sales which increased $45,627,000 or 9.8% in 1976, and sales and excise taxes increased as the result of selling price increases and the additional volume acquired in the United States.

Costs

Raw materials and manufacturing costs increased by $41,820,000 or 17.6% in 1977 as a result of the increased sales volume and higher unit costs for packaging materials and labour which were partially offset by lower commodity costs. In 1976, raw materials and manufacturing costs increased by $28,141,000 or 13.4% reflecting the additional United States volume produced and increases in all component costs.

Marketing and distribution costs increased by $11,433,000 or 12.2% in 1977. Higher unit costs and increased marketing activities accounted for the increases. The increase of $5,431,000 or 6.2% in 1976 arose primarily through higher unit costs.

Administrative and general expenses were higher by $4,096,000 or 21.0%. These higher costs reflected increased costs generally and the cost of additional operations in the United States for the whole year. In 1976, administrative and general expenses increased $2,391,000 or 14.0% primarily due to inflationary cost increases and the cost of the new management organization in the United States.

Interest expense on long term debt declined in both 1977 and 1976 as outstanding debentures were redeemed in accordance with sinking fund requirements. The interest expense on other borrowings which increased in 1977 by $764,000 or 36.6% due to higher borrowings throughout the year, was partially offset by lower interest rates which averaged 8.9% for 1977 compared to 10.0% for 1976. The increase in 1976 was due to additional short term borrowings to finance increased working capital requirements.

Foreign exchange losses arose on the translation of borrowings in United States funds, due to the decrease in the value of the Canadian dollar compared to the United States dollar, and on the translation of the accounts of the Irish subsidiary due to the decrease in the value of the pound sterling compared to the Canadian dollar. In 1976 the exchange loss arose from the decrease in the value of the pound sterling compared to the Canadian dollar partially offset by a gain arising in the United States with the strengthening of the Canadian dollar compared to the United States dollar.

The 1977 income tax provision represented 43% of earnings. This amount is lower than the standard rates applicable due to manufacturing incentives and non-taxable capital gains and dividends, offset by non-deductible foreign exchange translation losses. The abnormally high provision in 1976 resulted from the non-allowability for tax purposes of the loss of Carling National Breweries, Inc. The tax reduction in 1977 represented the utilization of some of these losses.

In 1976, a provision of $3,363,000 was made for costs in the United States associated with closing the Natick plant and other one-time costs resulting from the consolidation and reorganization of the operations.

Common Stock Quarterly Stock Price Comparison

The following table sets forth on a quarterly basis, the high and low sales prices on the Toronto Stock Exchange for the two years ended March 31, 1977:

	1977 Market Price		1976 Market Price	
Quarter	High	Low	High	Low
First	$3.65	$3.05	$2.96	$2.30
Second	3.40	2.82	3.20	2.60
Third	3.25	2.62	3.05	2.50
Fourth	3.25	2.71	4.05	2.54

No common dividends were paid during this period.

Comparison by Quarters
Quarterly Sales, Gross Profit and Income
(in thousands of dollars)

	1977				1976			
Quarter Ended	Sales	Gross Profit(1)	Net Earnings (Loss)	Earnings (Loss) Per Common Share	Sales	Gross Profit(1)	Net Earnings (Loss)	Earnings (Loss) Per Common Share
June 30	$165,017	$ 38,906	$ 4,438	18.0 ¢	$135,691	$ 34,327	$ 3,449	13.4 ¢
September 30	160,601	39,838	3,190	12.2 ¢	138,252	33,047	1,318	3.6 ¢
December 31	133,138	31,961	465	(.3)¢	129,518	29,895	(376)	(4.2)¢
March 31	121,964	27,314	(2,691)(2)	(14.8)¢	108,622	21,805	(6,908)(3)	(34.2)¢
	$580,720	$138,019	$ 5,402	15.1 ¢	$512,083	$119,074	$(2,517)	(21.4)¢

(1) Sales less excise and sales taxes and raw material and manufacturing costs.

(2) After tax reduction of $670.

(3) After provision of $3,363 for cost of reorganization of the United States operations.

Officers

Chairman of the Board and President	JOHN C. LOCKWOOD
Executive Vice President Finance	RALPH L. BEATTY
Vice President Legal and Secretary	PETER JOHN YOUNG
Treasurer	ALAN M. HODGE
Assistant Secretary	ROBERT D. WAUGH

Chief Executive Officers of Principal Operating Subsidiaries

Carling O'Keefe Breweries of Canada Limited	S. RODERICK McINNES
Carling National Breweries, Inc.	JEROLD C. HOFFBERGER
Jordan Valley Wines Limited	NOAH TORNO
Beamish & Crawford Limited	J. ANTHONY GAUNTLEY
Century Importers Inc.	GEORGE A. D. STEWART

CARLING O'KEEFE LIMITED

Directors

BRIGADIER GENERAL W. PRESTON GILBRIDE C.B.E., D.S.O., E.D., LL.D.*†	Chairman Grafton Group Limited Toronto, Ontario
A. MAXWELL HENDERSON, O.B.E., F.C.A., LL.D.*†	Consultant Toronto, Ontario
JEROLD C. HOFFBERGER	Chairman, President and Chief Executive Officer Carling National Breweries, Inc. Baltimore, Maryland
A. SEARLE LEACH, O.C., LL.D.*	Chairman Federal Industries Ltd. Winnipeg, Manitoba
HON. JEAN LESAGE, P.C., C.C., Q.C., LL.D.	Senior Partner Lesage, Paquet & Lesage Québec, Québec
JOHN C. LOCKWOOD†	Chairman of the Board and President Carling O'Keefe Limited Toronto, Ontario
I. LOYOLA MATTE	Président La Brasserie O'Keefe Limitée Montréal, Québec
S. RODERICK McINNES, C.A.	Chairman, President and Chief Executive Officer Carling O'Keefe Breweries of Canada Limited Toronto, Ontario
ANTHON W. NIELSEN, C.B.E.	Chairman United Breweries International Ltd. Copenhagen, Denmark
GEORGE C. SOLOMON*	President Western Limited Regina, Saskatchewan
NOAH TORNO, M.B.E.†	Chairman, President and Chief Executive Officer Jordan Valley Wines Limited Toronto, Ontario
SIR ALAN WALKER	Chairman The Thomas Cook Group Ltd. London, England

*Member of the Audit Committee of the Board
†Member of the Pension and Compensation Committee of the Board

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